

Parker, Steve

From: Waiching Wong [waichingw@greenlining.org]
Sent: Monday, January 09, 2006 3:24 PM
To: Comment
Subject: CRA comment letter final 01-09-06 The Greenlining Institute.doc

This is a letter to Robert E. Feldman, the Executive Secretary of the FDIC. If you have any questions accessing the letter, please contact me at waichingw@greenlining.org or (510) 926-4018
Thank you,

Waiching Wong, Banking Fellow, The Greenlining Institute

January 9, 2005

Office of the Comptroller of the Currency
250 E Street SW, Mail Stop 1-5
Washington DC 20219
RE: Docket No. 05-17

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington DC 20551
Docket No. OP-1240

Robert E. Feldman
Executive Secretary
Attention: Comments, RIN 3064-AC97
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington DC 20429

Restoring CRA exams to their original purpose—promoting safety and soundness and eliminating discrimination

Dear Incoming Chairman Bernanke, Comptroller Dugan, Acting Chairman Gruenberg, Director Reich, Secretary Johnson and Executive Secretary Feldman,

CRA exams are a barrier to closing the minority homeownership gap and ending racial discrimination and predatory lending.

We write to you on behalf of 39 minority business, church, immigrant service, consumer and civil rights groups. ^[i] (It is requested that each organization be

separately listed and counted regarding its concerns relating to the proposed changes to the question and answer document that provides guidelines to how CRA exams will be conducted).

Over the almost three decades since the enactment of the Community Reinvestment Act, the act has slowly lost part of its original purpose of ending redlining, ending discrimination, and ensuring equality of lending, services and investments to the minority community, the community that disproportionately represents the impoverished of America.

These comments are intended to provide overview and guidance relating to the concerns of 100 million minorities and the 11 million unbanked who disproportionately are members of minority communities. All six of these

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David Glover
Fred Jordan
Ortensia Lopez
Darlene Mar
Mary Ann Mitchell
Gayle Orr-Smith
April Veneracion
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recommendations for data to be included in the CRA exams seek to promote safety and soundness and to fulfill the original goals of the Community Reinvestment Act. It should also be noted, that many major banks despite regulator indifference, have made strides in addressing each of the concerns listed below.

CEO Leadership should be Rewarded

There is an intangible quality to safety and soundness that is not tested by CRA—creative leadership, especially by the CEO. CRA exams rarely reward creative leadership or long term strategic and leveraged planning. Pedestrian questions are asked and answered while leadership issues are ignored or barely mentioned.

CEOs and their top management therefore feel that they have little to gain by aggressively and creatively serving our nation's 100 million minorities and other underserved communities, including the 11 million unbanked. This is evidenced by the results of the CRA exams. According to the recent studies by the Greenlining Institute, more than 50% of institutions with over \$10 billion in assets regulated by the

Federal Reserve Board received an overall “Outstanding”.^[1] None of the banks with over \$10 billion in assets received a “Needs to Improve” or “Substantial Noncompliance,” the two lower grades available.

For financial institutions with \$10 billion or more in assets regulated by the OCC and the OTS, they received almost 50% and 60% “Outstanding” ratings.^[2] Almost half of FDIC regulated large banks

(banks with \$5 billion or more in assets) received an “Outstanding” rating.^[3] The grade inflation indicated in these high numbers of “Outstanding” indicate a substantial weakness in the CRA rating system. It is a system that is incapable of encouraging truly outstanding performance, and unable to discourage poor performance.

Closing the Minority Homeownership Gap

The president has eloquently and frequently expressed his concern about the minority homeownership gap and his desire to see it closed. All the four federal bank regulators have similarly expressed their desire to close the minority homeownership gap. Yet, it is a rarity for a CRA exam to even indirectly comment on the number of minority home loans, much less the disparity between the huge percentage of loans to affluent whites and the tiny percentage to low income minorities. It is rarer still for a CRA exam to compare institutions in the same geographical area and comparable size serving relatively identical markets to determine why some have succeeded and some have utterly failed to serve underserved communities.

The data is readily available and a mere question and answer relating to this disparity would have the effect of letting banks know that this is an important issue and likely to positively alter the priorities of banks. This alone would do more than all the pious statements by regulators to help close the minority homeownership gap.

Four Million Minority Owned Businesses Ignored

No CRA exam examines in any effective way the lending or investment patterns of any bank in regard to more than 4 million minority owned businesses in the United States, a cohort of businesses crucial to inner city redevelopment and revitalization.

The Federal Reserve has twice in the past decade ignored its staff recommendations that regulations be

revised so as to permit banks to voluntarily gather data by race, ethnicity and gender. If such were done, examiners could compare results, and influence priorities. More importantly, many major banks want to more effectively serve minority businesses, recognizing their importance in inner city development and job creation, but Regulation B stands as a 5000 foot high barrier.

It is Greenlining's expectation that the federal regulators led by new chairman Ben Bernanke, will recognize its commitment to minority owned businesses. A first step would be a revision of Regulation B, to permit banks to voluntarily target, market, and lend to minority owned businesses and keep records on such. A second step to ensure that CRA exams are meaningful should be that if such voluntary disclosure be insufficient for Congress to mandate it.

Supplier Diversity Benefits Safety and Soundness

The federal regulators have hampered their CRA examiners by barring them from examining, much less reporting on, bank efforts to do business with minority owned businesses located in underserved areas. These businesses are crucial to the revitalization of inner cities, and all major banks recognized this. Nevertheless, no bank is allowed to secure any credit for even the most creative efforts in doing business with inner city owned minority suppliers, even though it is well known that the safety and soundness of loans to businesses in the inner city is substantially enhanced by contracts that these businesses have with major corporations.

Presidential Diversity Should Apply to Banks

The importance of the diversity of the President's cabinet eludes regulators. Recognizing the importance of diversity to the economic and political strength of the nation, President Bush has the most diverse cabinet in American history. 40% of his cabinet consists of minorities, including 2 African Americans, 2 Asian Americans and 2 Latinos. Some occupy the most important cabinet positions including the Secretary of State and Attorney General.

In 1992, the Federal Reserve Bank of Boston completed a study that found a positive correlation between safety and soundness and diversity of management and CRA officers. All this is ignored for CRA exams. It is a very rare CRA exam that looks at the diversity of the board of directors or senior management or even the CRA lending officers.

Philanthropy to Underserved Communities

CRA exams only occasionally refer to philanthropy and often fail, even when they do, to distinguish between philanthropy to underserved communities rather than to the ballet or the symphony.

Many banks today have major philanthropic programs focused on underserved communities. The Bank of America for example, has committed 2 billion dollars for the next 10 years in philanthropy. Almost 80% is targeted towards community reinvestment or underserved communities. Little or no credit goes to banks for such philanthropic efforts; even when, as in the case of the Bank of America, they are a part of a long range strategic plan to enhance the economic development of the inner city.

Every major bank has readily available its philanthropic achievements and focus and such could be a part of every CRA exam including comparisons with other similarly sized banks. At a minimum, this would be likely to double the dollar amount of cash philanthropy strategically invested in the inner city for CRA purposes.

Six Recommendations for CRA exam questions

If modifications were made from a presently colorblind CRA exam that ignores subtle discrimination to one that pays attention to the realities and needs of 100 million minorities and 40 million minority owned businesses, then CRA exams could live up to the potential and purposes of the 1977 CRA act. Greenlining therefore recommends that the federal regulators take the following actions to promote bank safety and soundness, promote inner city revitalization and effective CRA exams:

1. Reward leadership by providing bonus CRA credits for innovative efforts to promote quality services for the underserved and ensure that not more than 10 percent of banks receive an “Outstanding” rating and no less than 10 percent receive a “needs to improve” rating.
2. Require CRA exams to specifically discuss minority homeownership data, particularly in the context of competitors with far better records and the impact on closing the minority homeownership gap
3. Revise Regulation B by accepting prior federal staff recommendations and allow the banking industry to gather data by race, ethnicity and gender and to allow CRA exams to include such data.
4. Permit supplier diversity data from the banking industry to be part of the record in a CRA exam in terms of aiding under served areas and promoting safety and soundness.
5. Permit the diversity of the board of directors, senior management and CRA officers to be part of the CRA exam.
6. Provide the banking industry with effective credit for philanthropy that is designed to serve CRA needs in underserved communities.

Greenlining is prepared to demonstrate that banks that focus on the above issues are highly profitable and are far better able to carry out the original purposes of the CRA act.

Thank you for your consideration of our recommendations.

Sincerely,

Robert Gnaizda
Policy Director

Waiching Wong
Banking Fellow

CC: Incoming Chairman Ben Bernanke, Comptroller Dugan, Acting Chairman Gruenberg and Director Reich

[\[1\]](#)

““FRB” Report Card on CRA Achievements of Large Financial Institutions” Published November 10, 2005

[\[2\]](#)

““OCC” Report Card on CRA Achievements of Large Banks” Published October 12, 2005

““OTS” Report Card on CRA Achievements of Large Financial Institutions” Published November 12, 2005

[\[3\]](#)

““FDIC” Report Card on CRA Achievements of Large Banks” Published August 18, 2005

[\[i\]](#)

These groups include: CHARO Community Development Corporation, Mission Language & Vocational School, Latino Issues Forum, Asian Enterprise, Chicano Federation, Asian Business Association, Greater Phoenix Area Urban League, Search to Involve Pilipino-Americans, The East Los Angeles Community Union-TELACU, The Unity Council, California Hispanic Chambers of Commerce, Nat'l Black Business Council, La Maestra Family Clinic, Southeast Asian Community Center, Filipino-American Chamber of Commerce, L.A. , Mexican American Grocers Association, Hmong-Am Political Assoc., West Coast Black Publishers Association, Allen Temple Baptist Church, First AME Church, Hispanic Chamber of Commerce of Orange County, American GI Forum, Mabuhay Alliance of San Diego, Mexican American Political Association-MAPA, West Angeles Church of God in Christ, Vietnamese Community of Orange County, National Federation of Filipino American Associations, Filipino-American Political Association, Japan Pacific Resources Network, S.F. Black Chamber of Commerce, Hermandad Mexicana Latinoamericana, Black Business Association, Council of Asian American Business Associations California, California Rural Legal Assistance, Minority Business Council, Orange County, Latin Business Association